

# International Economic and Financial Conditions

Agricultural Outlook Forum 2003

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February 20, 2003

# Global Outlook and Policy

- Two things that matter
  - Economic *growth* (***productivity*** *growth*)
  - Economic *stability*
- Worldwide
  - Industrial Countries
  - Developing and Emerging Market Countries

# Recent Productivity Growth

## (Past 10 years)

• East Asia	5.5
• United States	2.1
• Europe	1.2
• Latin America	0.7
• Middle East	-0.1
• Sub-Saharan Africa	-0.5

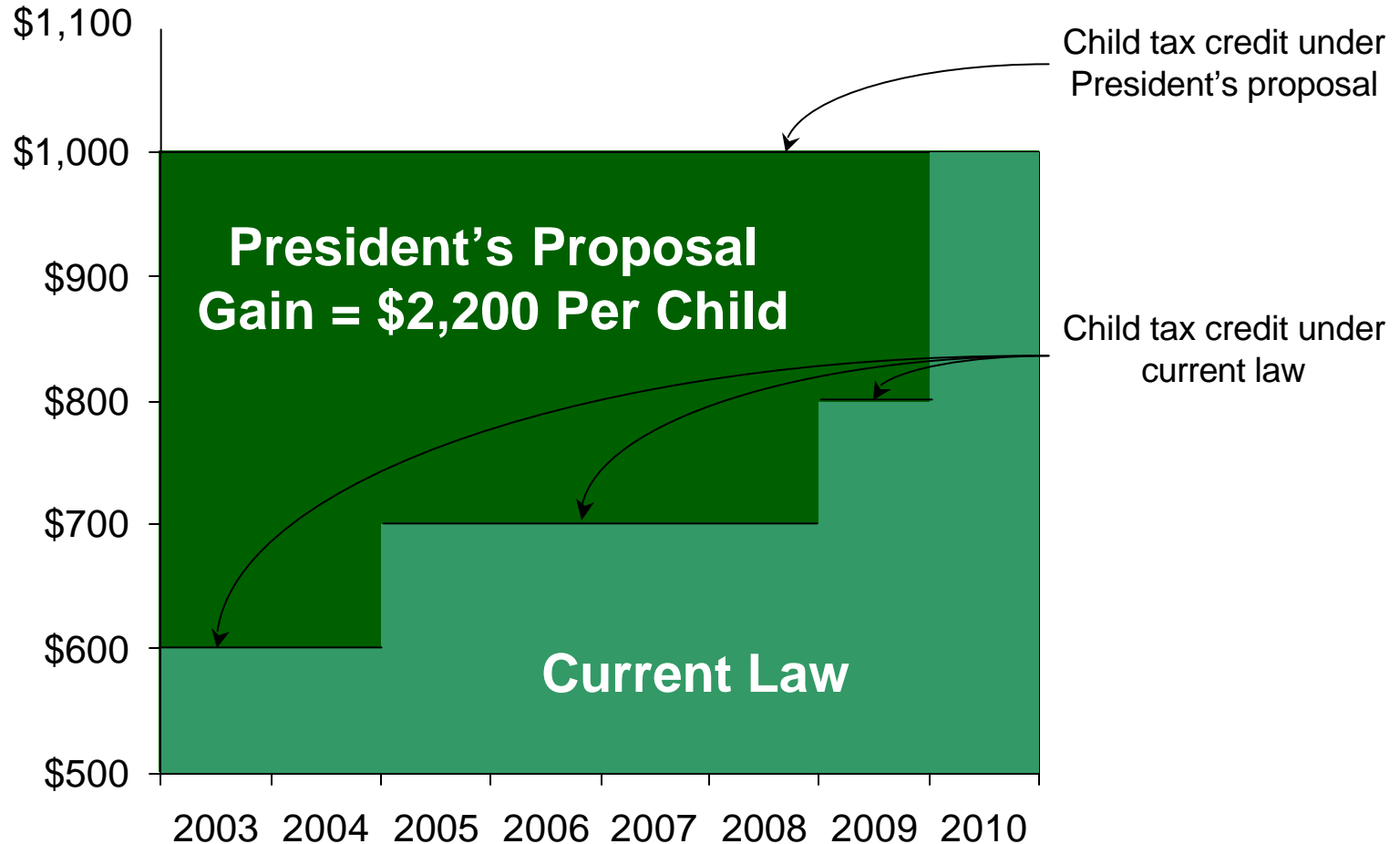
# Recent Trends in Economic Stability

- Industrial Countries:
  - recessions shorter, less frequent
- Emerging Market Countries:
  - Increase in financial crises in the 1990s
  - 60 percent more than the 1980s
  - 15 major crises since 1994 Mexico crisis
- Common elements:
  - Fixed exchange rate
  - Currency mismatches
  - Poorly regulated and supervised financial sector

# Two Key Components of Jobs and Growth Package

- Accelerate Tax Cuts of 2001
- Eliminate double tax on dividends

# Child Tax Credit

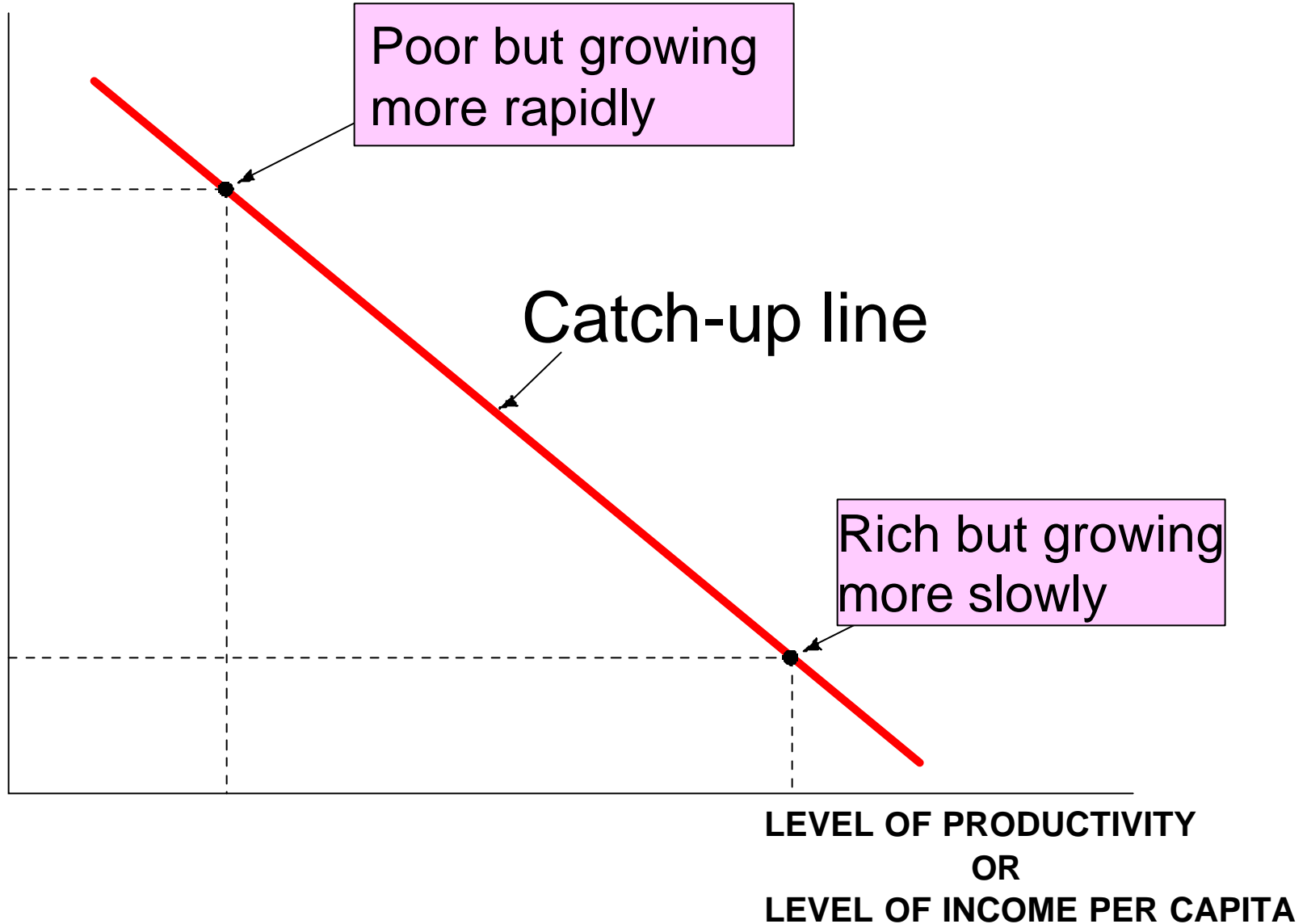


*Significantly larger tax credit for children now to bolster the expansion and create jobs.*

# Why Is Productivity Growth So Low In Many Poor Countries?

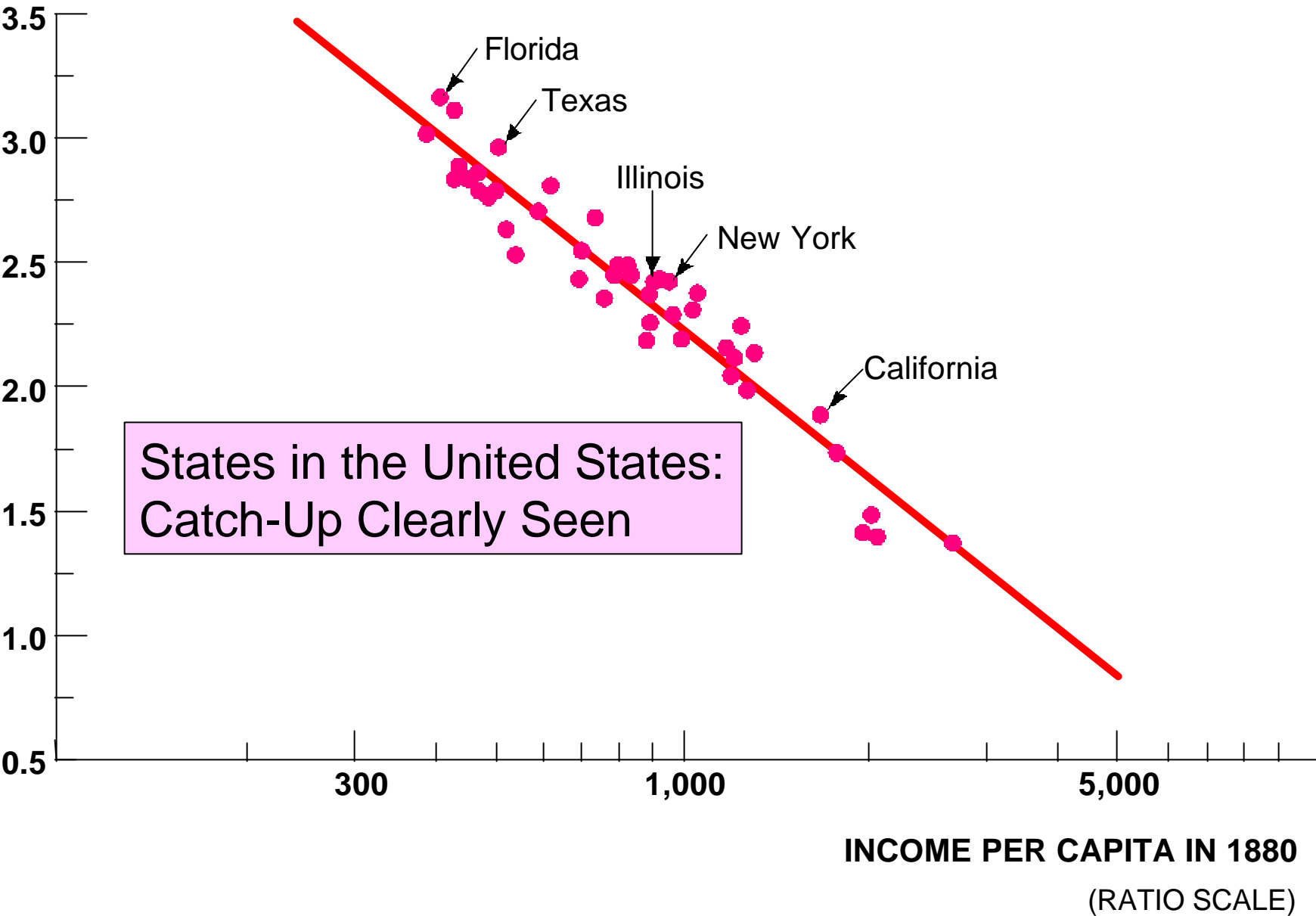
- Productivity ( $Y/L$ ) depends on:
  - **capital** ( $K/L$ ) and **technology** ( $T$ )
- If there are no impediments to the spread and use of *capital* and *technology*, then countries behind in productivity should be catching-up
- Capital and technology would go to where they are relatively scarce because the returns are so high

GROWTH RATE OF  
PRODUCTIVITY  
OR  
GROWTH RATE OF  
INCOME PER CAPITA



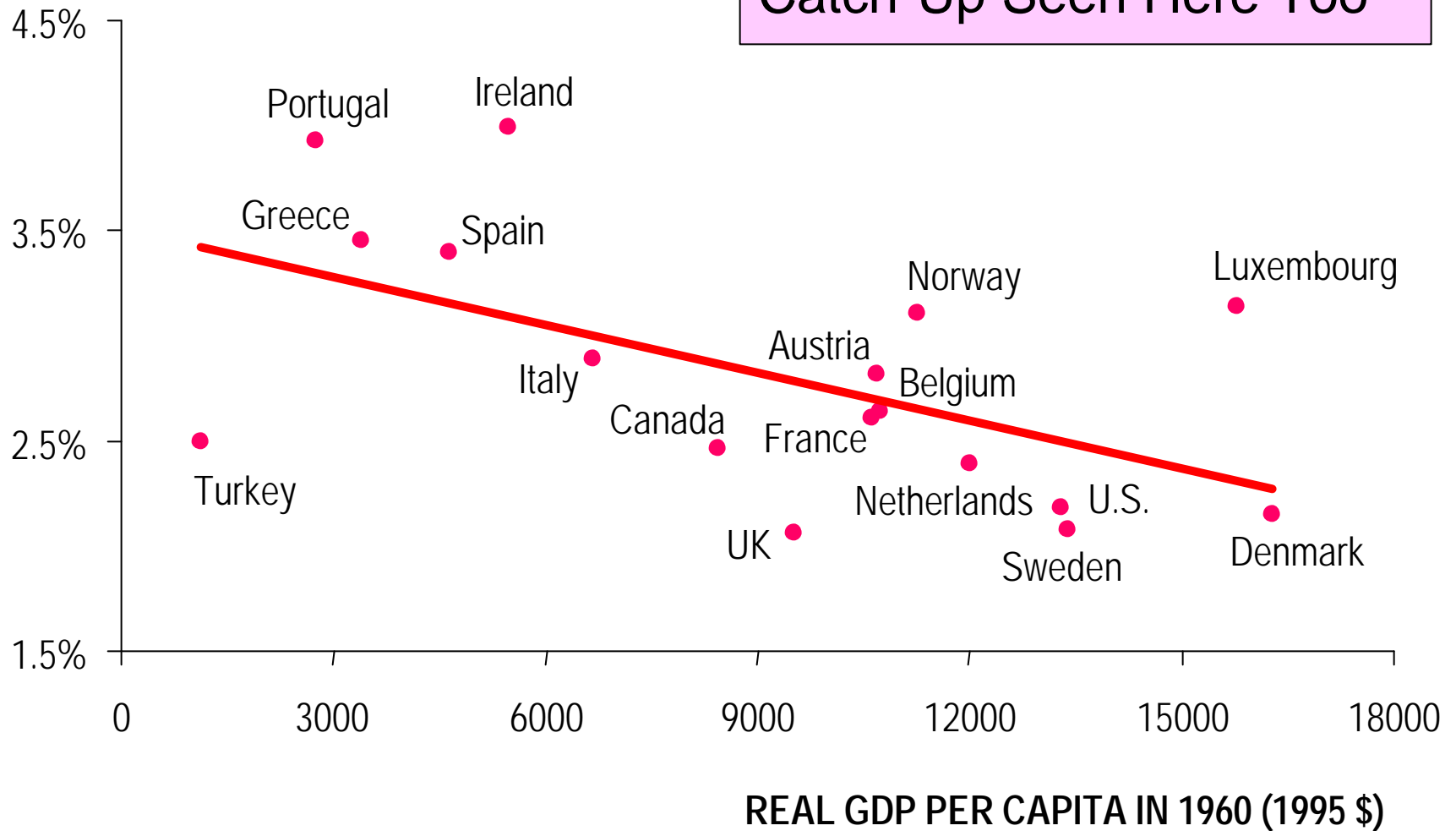


GROWTH RATE OF  
INCOME PER CAPITA, 1880-1980



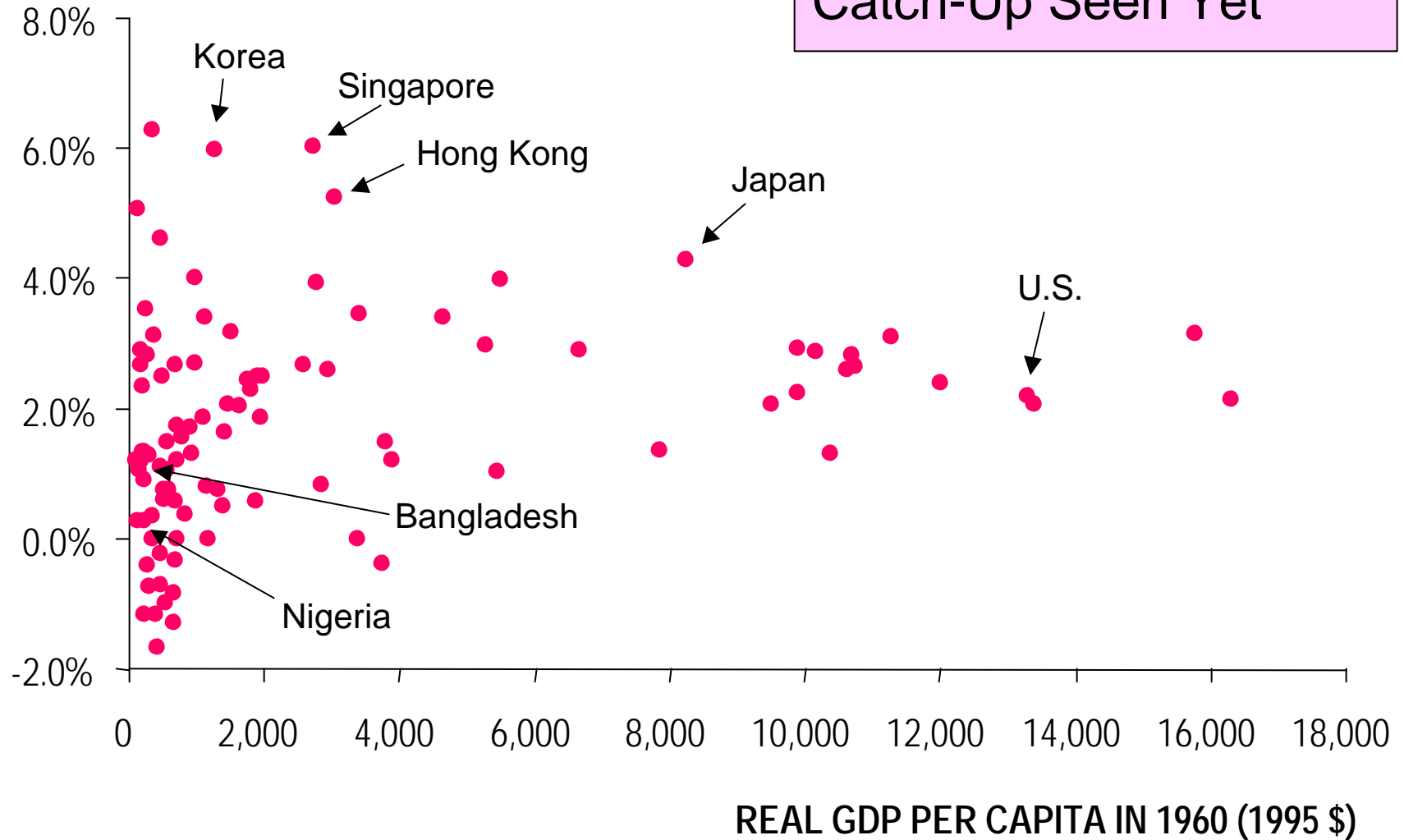
## ANNUAL GROWTH RATE OF REAL GDP PER CAPITA, 1960-1999

More Advanced Countries:  
Catch-Up Seen Here Too



## ANNUAL GROWTH RATE OF REAL GDP PER CAPITA, 1960-1999

All Countries: Not Much Catch-Up Seen Yet



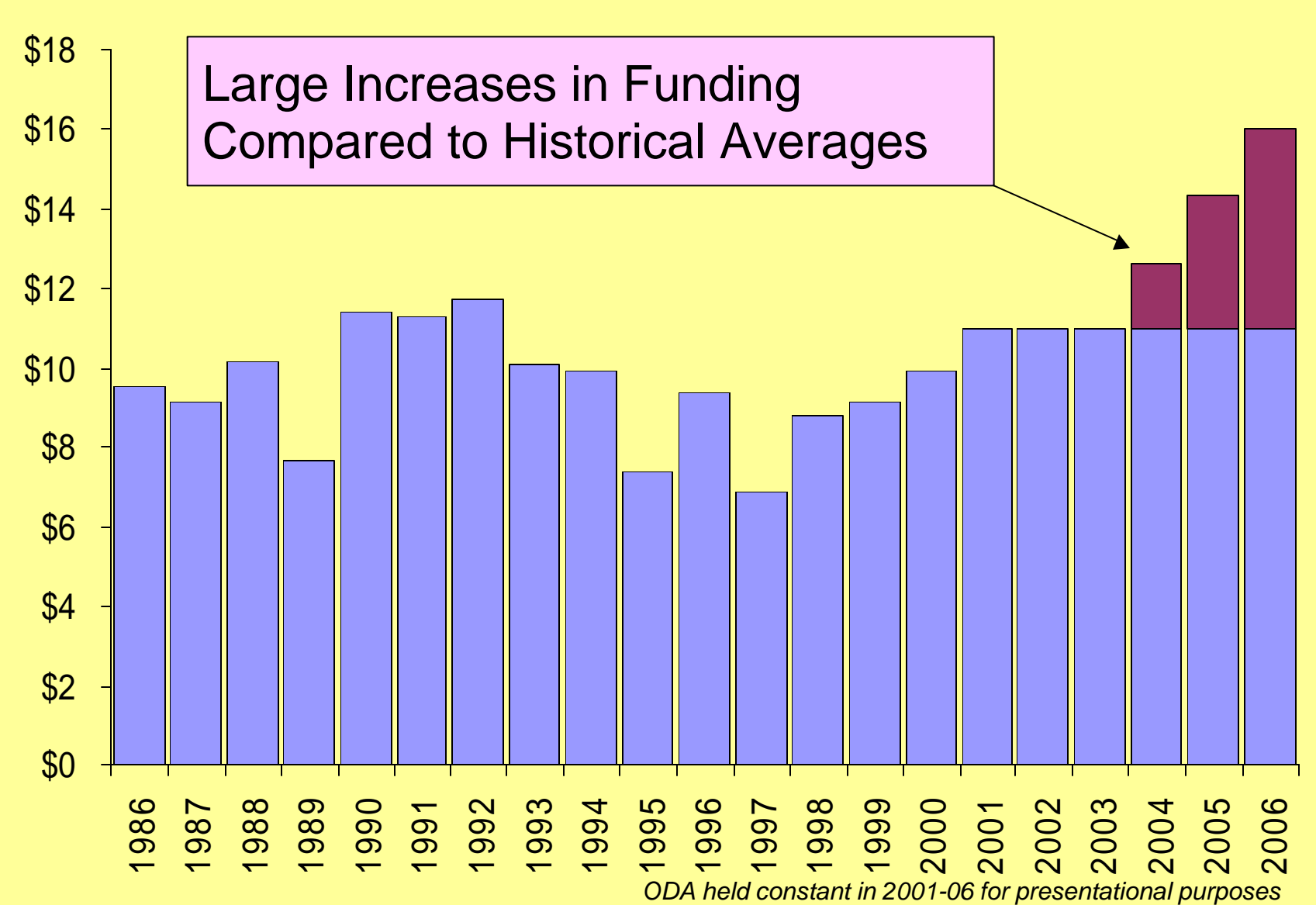
# Why Isn't There More Catch-Up

- Poor governance
  - weak rule of law, corruption
  - creates disincentives to invest, to start up new firms, to expand existing firms
- Poor education
  - reduces human capital
  - impedes adoption of new technologies
- Restrictions on economic transactions
  - lack of openness to trade, state monopolies, and excessive regulation
  - reduce incentives for innovation and investment needed to boost productivity

# The New Foreign Aid Agenda

- **Increase foreign aid**
  - (1) Funding for Millennium Challenge Account to increase to \$5 billion a year by 2006 — a 50% increase over and above existing U.S. development assistance
  - (2) Contribution to World Bank's International Development Association (IDA) increase by 18%
  - (3) Larger fraction of IDA aid in form of outright grants rather than loans
- Let **good performance** determine which countries get aid for economic development
- Insist on **measurable results**

U.S. OFFICIAL DEVELOPMENT ASSISTANCE  
US\$ BILLION, 1986-2006



# Good Policy Performance is Part of the Millennium Challenge Account

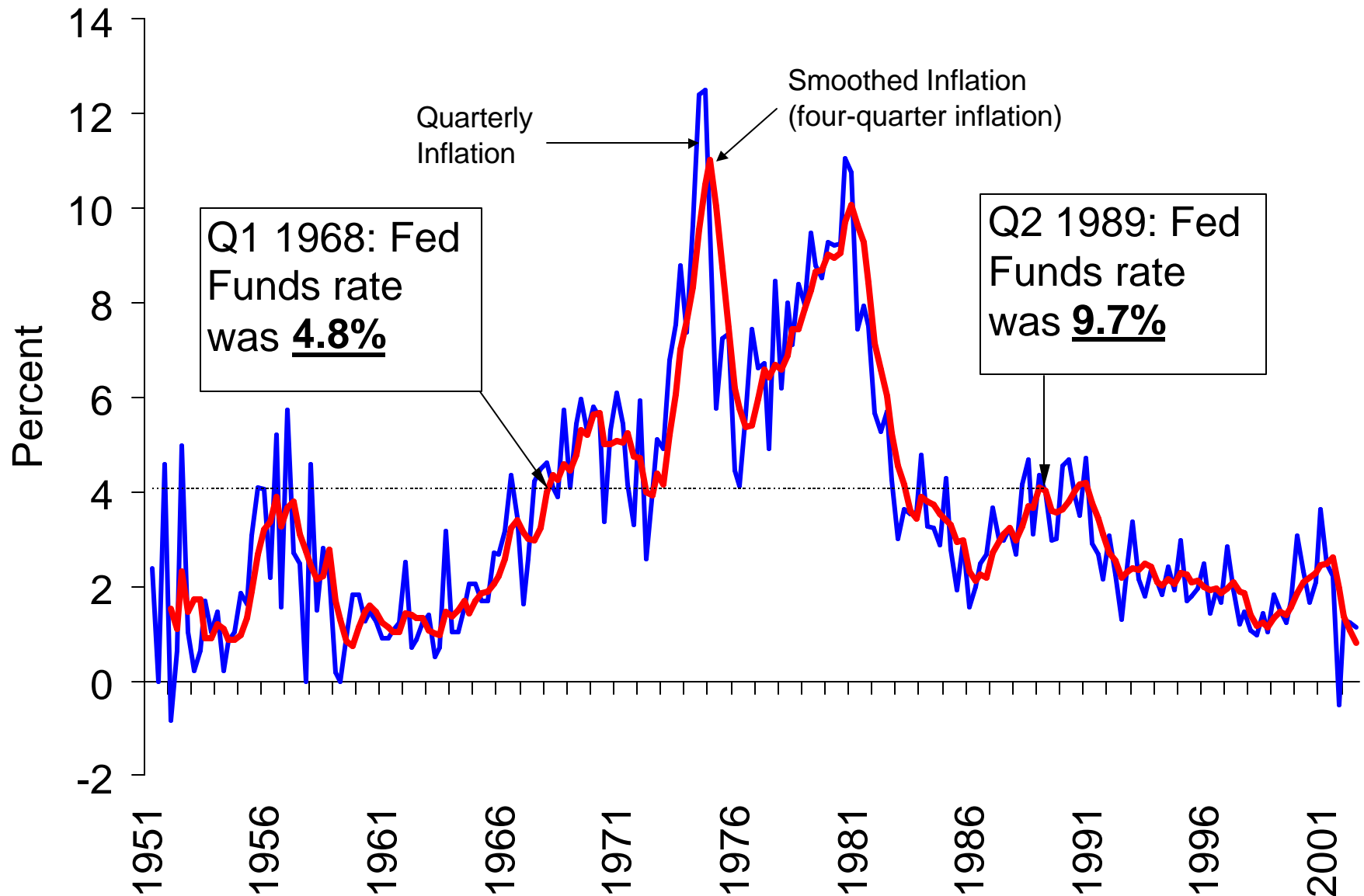
- “Ruling justly”
  - lack of corruption, rule of law
- “Investing in people”
  - good education and health policy
- “Encouraging economic freedom”
  - good trade and macro policy

# International Monetary Policy Today

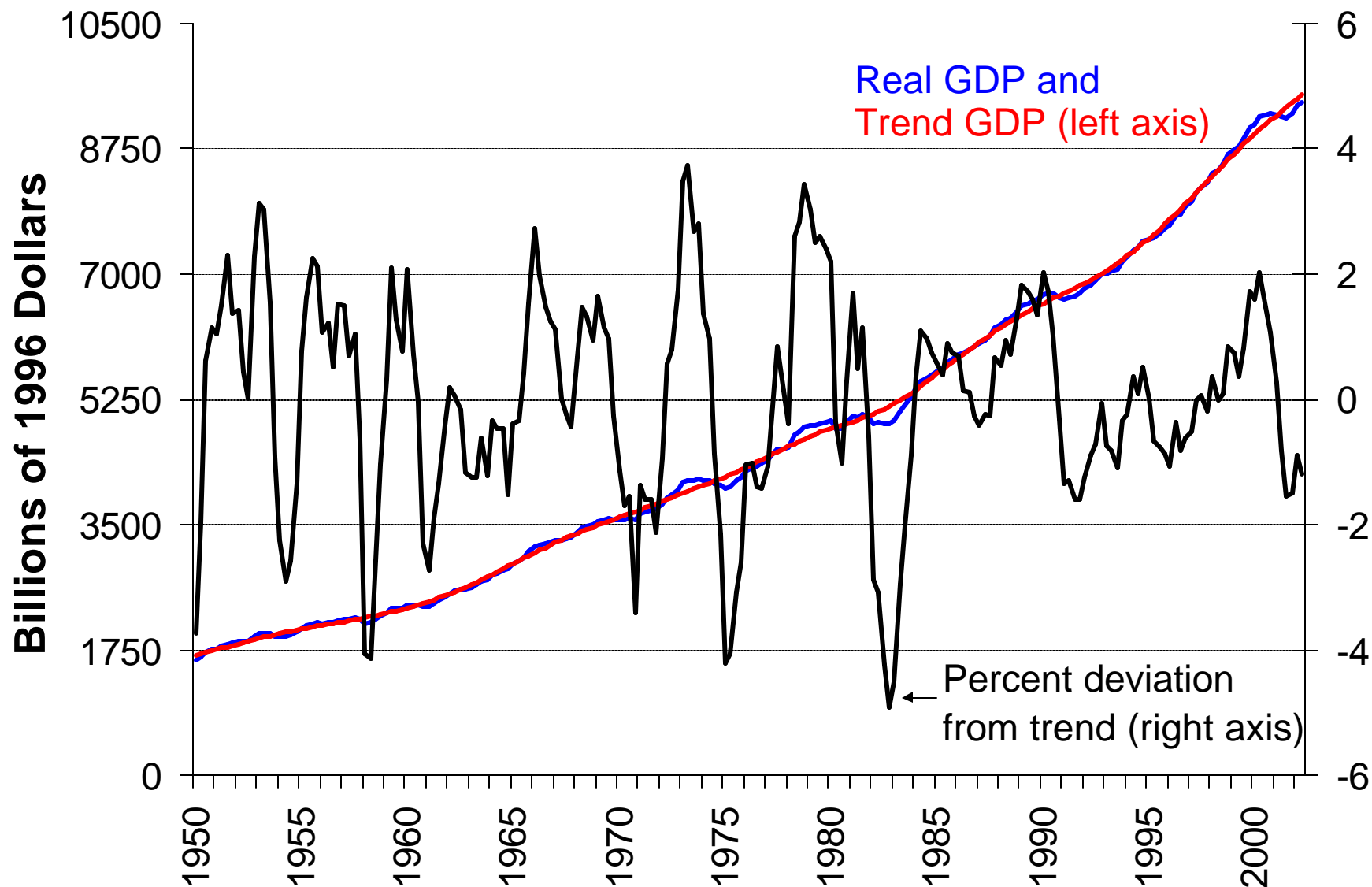
- **47** countries with flexible exchange rates and low inflation goals
- **50** countries either dollarized, in currency unions, or using currency boards
- **75** with fixed or heavily managed exchange rates
- **7** with multiple exchange rate regimes (way down)



# U.S. Inflation



# U.S. Real GDP



# Emphasis on Crisis Prevention

- EM Countries: Get own policies right
- IMF: focusing on core policy issues: monetary, fiscal, exchange rate
- US/G7/G20:
  - Develop better models/indicators (bluechip)
  - Emphasize difference between economic and non-economic considerations

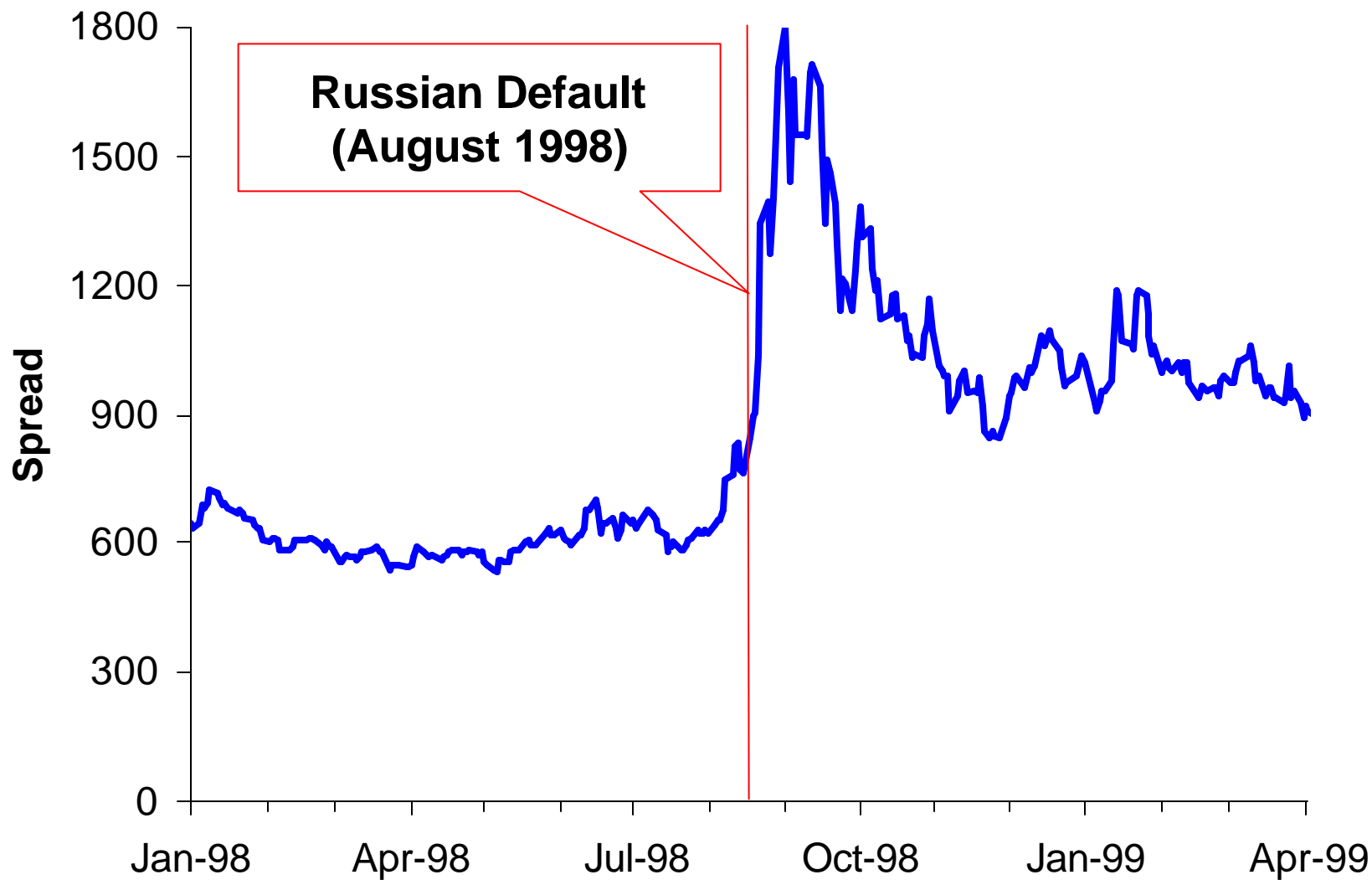
# Reducing Contagion

- Need not be “automatic”
- Greater differentiation—policies, countries
- Policy response:
  - assistance to impacted countries if policies are good e.g., Uruguay (2002)
- Results very favorable
  - Contagion is way down
  - Many crises have been prevented

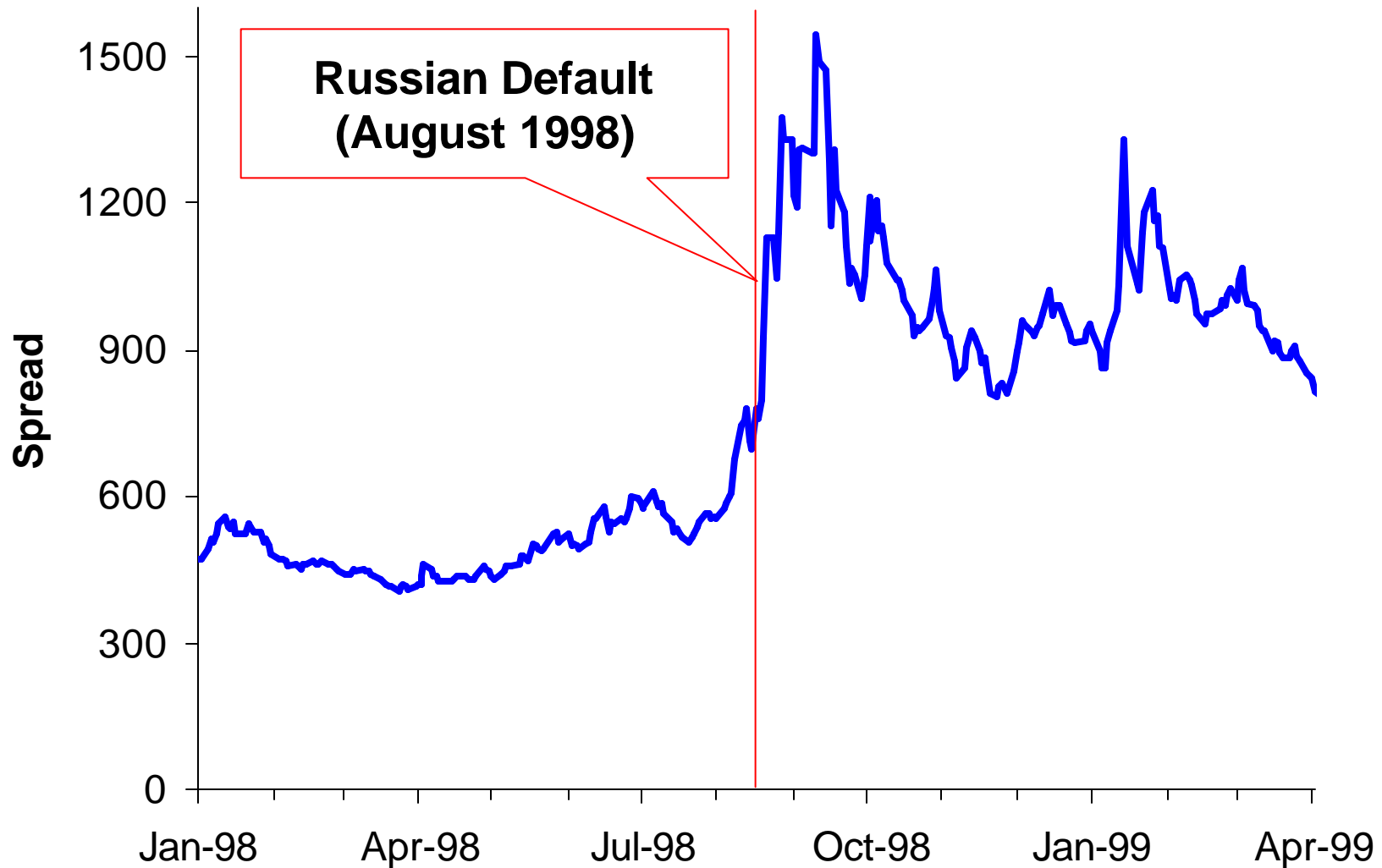
# Asia EMBI+ (1998-1999)



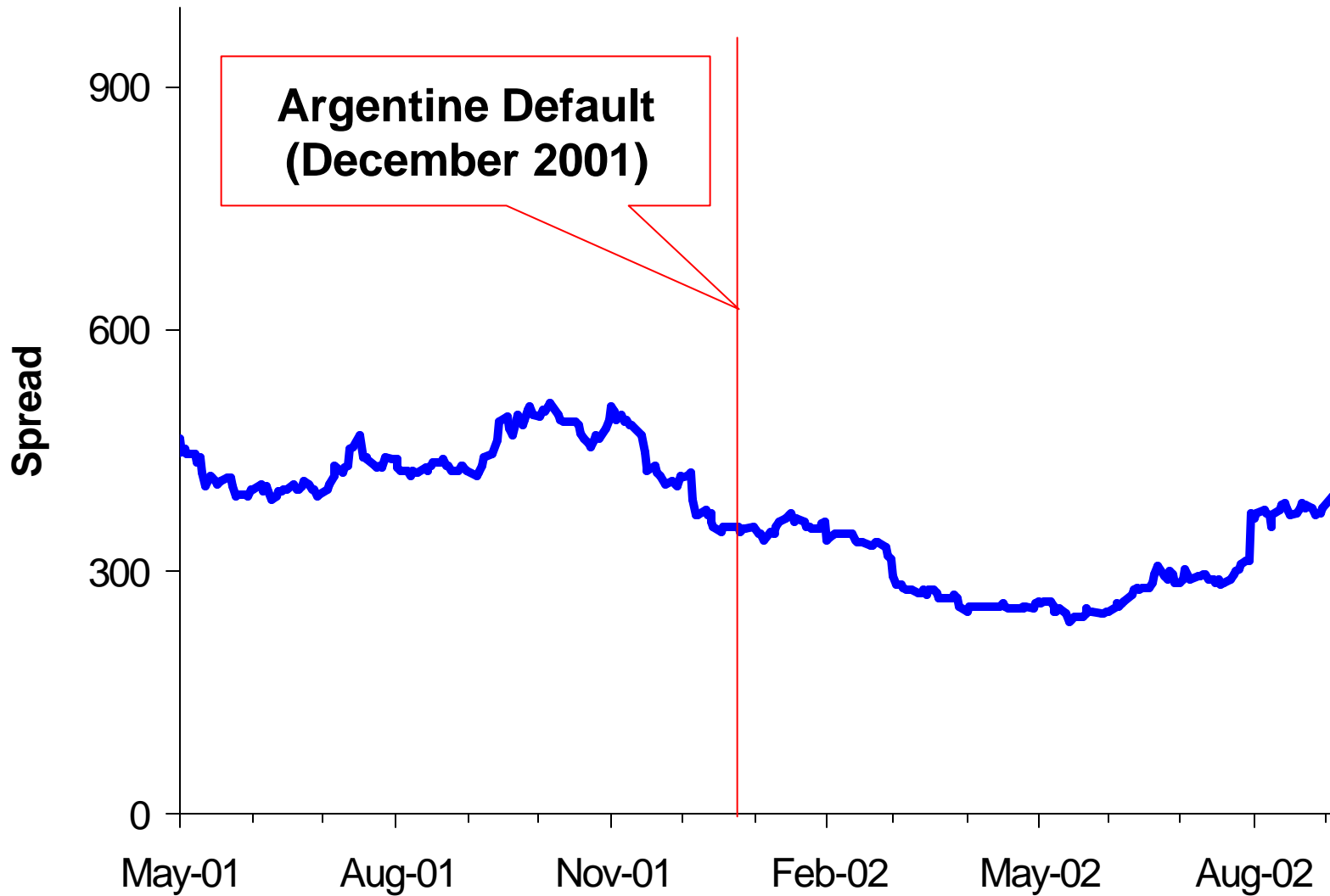
# Africa EMBI+ (1998-1999)



# Latin America EMBI+ (1998-1999)

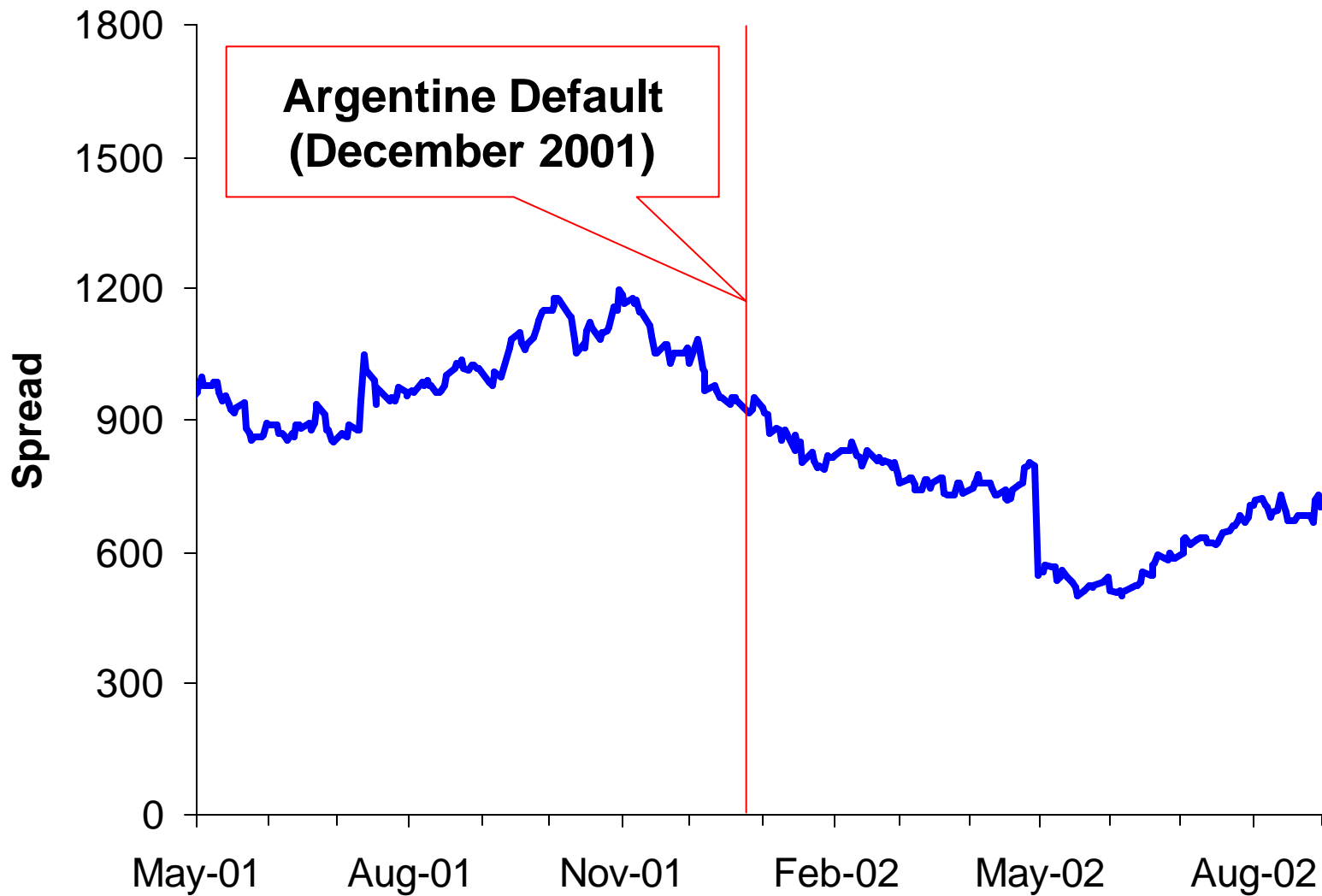


# Asia EMBI+ (2001-2002)

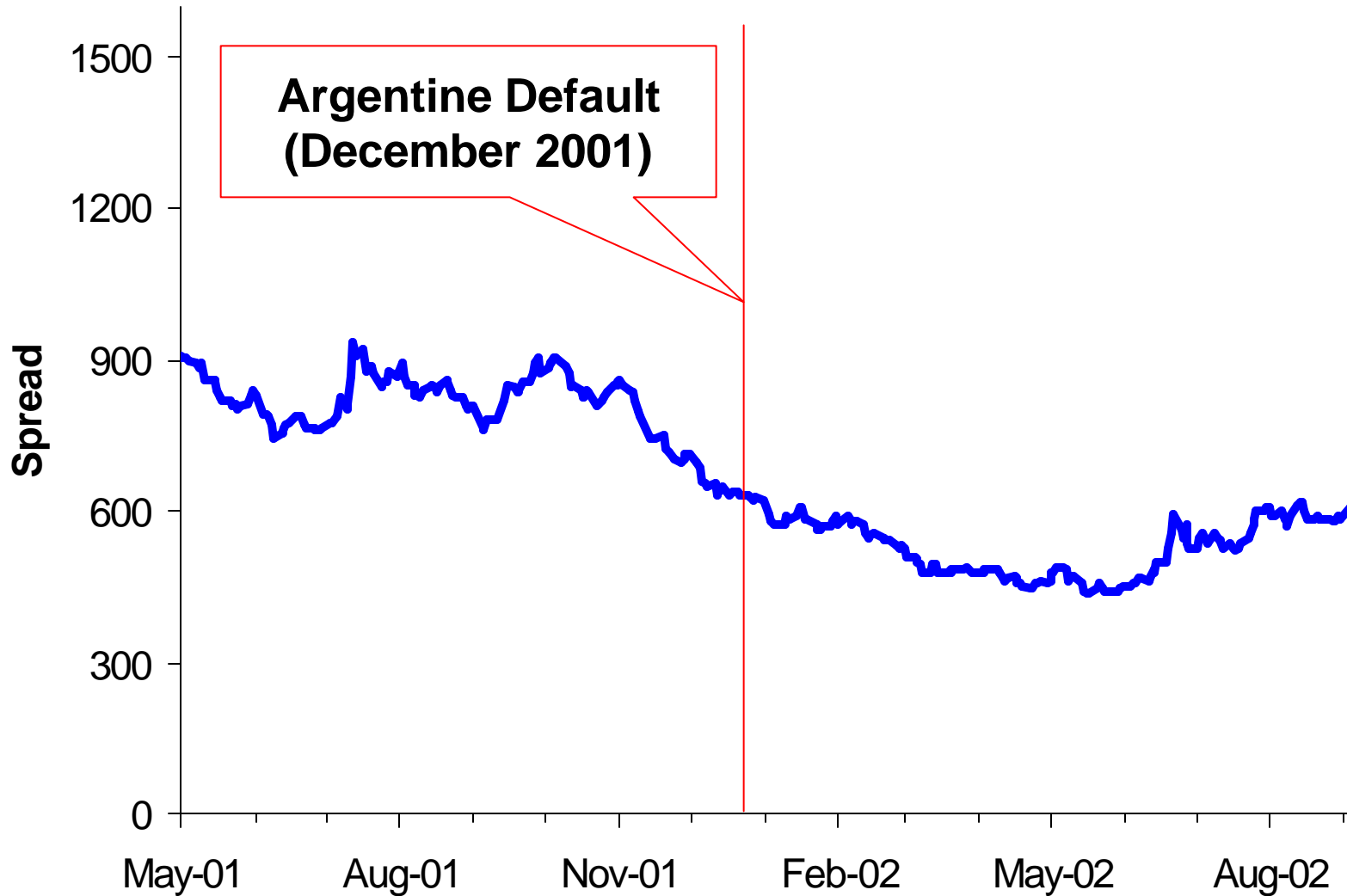




# Africa EMBI+ (2001-2002)



# Europe EMBI+ (2001-2002)



# Clarifying Limits on Loan Access

- Move gradually in direction of less reliance on large assistance packages
  - No lending into unsustainable situations
- Avoid use of large-scale bilateral loan assistance: IMF is main source of emergency support
- Formally justify exceptional access

# Reform Process for Sovereign Debt Workouts

- More orderly and predictable
  - But not more likely
- Two approaches
  - Decentralized: Insert contingency clauses in bonds
  - Centralized: create international panel or court